

Auditing Procedures Report

issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name White Cloud Sherman Utilities Authority	County Newaygo
Audit Date 6/30/05	Opinion Date 8/3/05	Date Accountant Report Submitted to State: 9/1/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Hendon & Slate, P.C.			
Street Address 711 W. Main	City Fremont	State MI	ZIP 49412
Accountant Signature <i>John Korstang J CPA</i>		Date 8/29/05	

**WHITE CLOUD/SHERMAN
UTILITIES AUTHORITY
NEWAYGO COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2005**

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WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Board Members

Stanley Stroven, Sr.	Chairman
Dale Twing	Vice-Chairman
Richard Besser	Trustee
Ronald Carrozza	Trustee
Christine Tiernan	Trustee
Gail Hitts	Recording Secretary



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Independent Auditor's Report

Utility Authority Board
White Cloud/Sherman Utilities Authority
Newaygo County
White Cloud, Michigan 49349

We have audited the accompanying financial statements of the White Cloud/Sherman Utilities Authority, Newaygo County, Michigan, as of June 30, 2005 and for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the White Cloud/Sherman Utilities Authority, Newaygo County, Michigan, at June 30, 2005 and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. We did not examine this data and, accordingly, do not express an opinion thereon.

Hendon & Slate

Hendon & Slate, P.C.
Certified Public Accountants
August 3, 2005

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**WHITE CLOUD/SHERMAN UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

Using this annual Report

This annual report consists of two parts - *management's discussion and analysis* (this Section) and the *basic financial statements*. The Basic Financial Statements include the following information:

- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Authority's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Authority as a whole and present a long-term view of the Authority's finances. These statements tell how these services were financed in short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

Authority as a Whole

The White Cloud/Sherman Utilities Authority was organized to operate and maintain a sewage disposal system. The municipalities of The City of White Cloud and Sherman Township created the Authority.

The Authority's primary source of revenue is from user fees, representing 89% of total revenues. The user fee per quarter for the year ended June 30, 2005 was \$47.70 for residential users and \$47.70 times the assigned equivalent user factor for non-residential users.

The Authority is considering a rate increase for the first time in many years. This increase may be necessary to offset an increasing deficit between capital payoffs and debt requirements. Without such a rate increase, the Authority will continue to need to use operating funds to meet debt requirements.

The Authority charges \$2,500, with a minimum \$750 down payment, for initial connections into the sewer system. The remaining balance may be financed by the Authority over 30 years at 6% interest. The Authority has passed a resolution (effective July 1, 2004) requiring the customer to pay the \$2,500 connection fee as well as being responsible for the fees to an independent contractor to make the connection. Previously, the Authority used the \$2,500 connection fee to pay the independent contractor for the connection. An additional change as part of the new resolution makes lateral repairs and maintenance 100% the responsibility of the customer. Previously, the Authority covered the cost of necessary lateral repairs.

Management's Discussion and Analysis (continued)

The table below contains key financial information in a condensed format between the current year and the prior year:

	<u>2005</u>	<u>2004</u>
Current Assets	\$ 478,663	\$ 491,002
Noncurrent Assets	<u>4,333,893</u>	<u>4,505,277</u>
Total Assets	<u>\$ 4,812,556</u>	<u>\$ 4,996,279</u>
Current Liabilities	64,440	\$ 64,695
Noncurrent Liabilities	<u>742,500</u>	<u>792,500</u>
Total Liabilities	806,940	857,195
Net Assets:		
Invested in Capital Assets		
- Net of Debt	\$ 3,005,488	\$ 3,105,165
Unrestricted	<u>1,000,128</u>	<u>1,033,919</u>
Total Net Assets	<u>\$ 4,005,616</u>	<u>\$ 4,139,084</u>
Revenue:		
User Fees	\$ 324,558	\$ 318,834
Other	<u>18,035</u>	<u>40,014</u>
Total Revenues	342,593	358,848
Expenses	<u>(475,493)</u>	<u>(485,564)</u>
Change in Net Assets	<u>\$ (132,900)</u>	<u>\$ (127,716)</u>

Governmental Activities

All of the Authority's financial information is for business-type activities. Therefore, no governmental activities are reported.

The Authority's Funds

The Authority uses an Enterprise Fund to account for the activities of its Sewer Fund.

General Fund Budgetary Highlights

The Authority uses an Enterprise Fund to account for the activities of its Sewer Fund. Budgetary requirements do not exist for Enterprise Funds as they do for governmental-type funds such as a General Fund. Therefore, no budgetary highlights are reported.

Management's Discussion and Analysis (continued)

Debt Administration

At year end, the Authority had \$792,500 in Notes outstanding. The Debt resulted from the issuing of Bonds for the purpose of creating the sewer system.

Additional information about the Authority's long-term Debt obligation can be found in Note D Page 15 of this report.

Economic Factors

The Authority's financial position has been affected by the following factors: 1) The Authority's customer base grew by approximately 10 customers; 2) An Industrial Park was recently constructed, although there have been no businesses hooking into the system yet; 3) A new business (Dollar General) moved into the area and hooked into the system; and 4) The resolution passed by the Authority effective July 1, 2004 regarding the changes to the connection fee and responsibility for repairs and maintenance will decrease the expenditures the Authority will be responsible for in future years.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Recording Secretary of the Authority, White Cloud/Sherman Utilities Authority, C/O Gail Hitts, 60 W. Baseline Road, P.O. Box 725, White Cloud, MI 49349.

Statement of Net Assets - Enterprise Fund
June 30, 2005

Assets

Current Assets

Cash and Cash Equivalents	\$ 357,243
Accounts Receivable-Billings	88,361
Inventory	6,051
Prepaid Expenses	<u>27,008</u>

Total Current Assets 478,663

Noncurrent Assets

Accounts Receivable-Tap Fees	535,905
Property, Plant and Equipment (at cost)	\$ 7,329,247
Less: Accumulated Depreciation	<u>(3,531,259)</u>
Net Property, Plant and Equipment	<u>3,797,988</u>

Total Noncurrent Assets 4,333,893

Total Assets \$ 4,812,556

Liabilities

Current Liabilities

Accounts Payable	\$ 3,661
Accrued Compensated Absences	5,603
Accrued Wages	2,091
Withholding Taxes Payable	3,085
Current Portion of Long Term Debt	<u>50,000</u>

Total Current Liabilities 64,440

Noncurrent Liabilities

Lease Payable-Net of Current Portion	<u>742,500</u>
--------------------------------------	----------------

Total Liabilities 806,940

Net Assets

Invested in Capital Assets-Net of Debt	3,005,488
Unrestricted	<u>1,000,128</u>

Total Net Assets 4,005,616

Total Liabilities and Net Assets \$ 4,812,556

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets - Enterprise Fund For the Fiscal Year Ended June 30, 2005

Operating Revenues	
Sales	
City of White Cloud	\$ 206,687
Sherman Township	117,871
Fees and Penalties	6,656
Miscellaneous	<u>2,891</u>
Total Operating Revenues	334,105
Operating Expenses	
Legislative	
Salaries	<u>4,650</u>
Total Operating Expenses - Legislative	4,650
Operating Maintenance	
Employee Wages	42,500
Operating Supplies	8,351
Utilities	31,151
Repairs and Maintenance	33,418
Permtis	3,650
Other Services	<u>906</u>
Total Operating Maintenance	119,976
Depreciation	152,698

Administrative and General Expenses	
Employee Wages	\$ 64,576
Taxes - FICA	8,668
Retirement	8,636
Health Insurance	35,027
Professional Services	6,274
Office Supplies	3,043
Insurance	26,724
Miscellaneous	990
Memberships	991
Utilities	<u>2,240</u>
 Total Administrative and General Expenses	 <u>157,169</u>
 Total Operating Expenses	 <u>434,493</u>
 Total Operating Loss	 (100,388)
 Nonoperating Revenues (Expenses)	
Interest Earned on Investments	8,488
Interest Expenses	<u>(41,000)</u>
 Total Nonoperating Revenues (Expenses)	 <u>(32,512)</u>
 Change in Net Assets	 (132,900)
 Net Assets - July 1, 2004	 4,139,084
Prior Period Adjustments - See Note I	<u>(568)</u>
 Net Assets - June 30, 2005	 <u><u>\$ 4,005,616</u></u>

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Statement of Cash Flows - Enterprise Fund For the Year Ended June 30, 2005

Cash flows from operating activities:	
Cash Received from Operating Activities	\$ 80,388
Cash Flows from Non-Capital Financing Activities	
Principal and Interest Paid on Debt	(91,000)
Cash Flows from Capital Financing Activities	
Purchase of Capital Assets	(3,021)
Cash Flows from Investment Activities	
Interest Income	<u>8,488</u>
Net Decrease in Cash and Cash Equivalents	(5,145)
Cash and Cash Equivalents at Beginning of Year	<u>362,388</u>
Cash and Cash Equivalents at End of Year	<u>\$ 357,243</u>
Reconciliation of Operating Loss to Net	
Cash Provided by Operating Activities:	
Operating Income	\$ (100,388)
Adjustments to Reconcile Operating Income	
To Net Cash Provided by Operating	
Activities:	
Depreciation Expense	152,698
Change in assets and liabilities:	
Decrease in Accounts Receivable-Billings	7,566
Decrease in Accounts Receivable-Tap Fees	28,336
Increase in Prepaid Expenses	(372)
Decrease in Accounts Payable	(5,750)
Decrease in Accrued Compensated Absences	(1,594)
Decrease in Withholding Taxes Payable	(126)
Increase in Accrued Wages	<u>18</u>
Net cash Provided by operating activities	<u>\$ 80,388</u>

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Notes to the Financial Statements
June 30, 2005

NOTE A NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the White Cloud/Sherman Utilities Authority (the "Authority") conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. In 2003-2004 the Authority adopted this statement. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

The following is a summary of the significant accounting policies:

1. REPORTING ENTITY

The White Cloud/Sherman Utilities Authority is organized pursuant to the provisions of Act 233 PA 1955, as amended. The Incorporating Municipalities creating this Authority are the City of White Cloud and Sherman Township, which are designated as the Constituent Municipalities. The Authority is located in Newaygo County and its purpose is to provide sewer system services to the residents of the Constituent Municipalities. The Authority is governed by a six member Utility Authority Board appointed by the participating governments and is responsible for the operation of the Authority.

The Utilities' financial statements include all activities of the Authorities' operations. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Authority, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Authority's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of

management, ability to significantly influence operations and accountability for fiscal matters.

Also, using the same criteria above, the Authority's financial statements include the accounts of all Authority operations.

2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Proprietary funds use the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Enterprise Funds are used to account for operations that (A) are financed and operated in a manner similar to private business enterprise – where the intent of the governing body is that the costs (Expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (B) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting the definition are reported as nonoperating revenues and expenses.

4. CAPITAL ASSETS

Capital assets which include land and improvements, buildings and improvements and equipment are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life on an asset are capitalized. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Machinery & Equipment	10 Years
Sewer System	50 Years

5. CASH AND EQUIVALENTS

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments, if any, with original maturities of three months or less from date of acquisition.

6. ACCOUNTS RECEIVABLE

Accounts receivable-billings represent services provided to customers within the service area. Delinquent utility billings are placed on the tax roll and are therefore considered to be ultimately collectible. Accounts receivable-tap fees represent amounts for original tap fees that have been financed by the Authority. The Authority permits the financing of these fees over 20 years at 6% interest.

7. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

8. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

9. COMPENSATED ABSENCES

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Authority employees are granted vacation and sick leave in varying amounts based on length of service. Upon termination, employees are paid accumulated vacation at full rates, but lose any unused sick leave. All vacation pay is accrued when incurred in the financial statements. A liability for this amount is reported on the enterprise fund balance sheet.

NOTE B DEPOSITS

Legal or Contractual Provisions for Deposits and Investments. The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, states the Authority by resolution, may authorize the Treasurer to invest surplus funds in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 81a-1 to 801-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

The Authority funds are held at Independent Bank of West Michigan, Valley Ridge Bank, Fifth Third Bank and Gerber Employees Federal Credit Union and a petty cash fund. Funds are carried at cost and consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
Independent Bank of West Michigan		
Checking	\$ (888)	\$ 10
Savings-Reserve	6,015	6,015
Savings-Replacement	5,326	5,326
NOW Account Money Market		119,836
119,836		
State Farm Bank		
Certificate of Deposit	102,906	102,906
Fifth Third Bank		
Checking	17,196	17,196
Gerber Employees Federal Credit Union		
Savings	106,476	106,476
Savings	118	118
Petty Cash	<u>258</u>	<u>258</u>
Total Deposits	<u>\$ 357,243</u>	<u>\$ 358,141</u>
FDIC Insured	\$ 328,537	\$ 328,537
Uninsured	<u>28,706</u>	<u>29,604</u>
Total Deposits	<u>\$ 357,243</u>	<u>\$ 358,141</u>

Investments are normally categorized to give an indication of the level of risk assumed by the Authority; however, money market and cash management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE C RECEIVABLES

Receivables as of year end are as follows:

Sewer Sales	\$ 62,515
Delinquent	25,846
Tap Fees	<u>535,905</u>
Total	<u>\$ 624,266</u>

Notes to the Financial Statement (Continued)

The accounts receivable represent sewer sales to Customers in the Authority's service area. Customers are billed quarterly in advance for sewer services provided in the prior quarter.

The Authority's policy is to place delinquent sewer receivables on the property tax rolls each year. The monies are eventually received through the county tax revolving fund program. Because of this policy, the about balances is considered current and collectible.

NOTE D NEWAYGO COUNTY DPW REVENUE BONDS

The Authority has a capitalized lease with GMAC Commercial Mortgage Corporation for the purchase of the sewer system assets. The Authority pays the lease out of revenues of the system. For the current year, the Authority paid interest of \$41,000 on the outstanding debt. The original amount of the capital lease was \$2,100,000. The City of White Cloud and Sherman Township are ultimately responsible for the debt. In the event that the Authority is unable to make debt service payments, the debt would be the responsibility of the City and Township as follows. The debt will be retired in the year 2020.

City of White Cloud	26.40 %
Sherman Township	<u>73.60</u>

100.00 %

	<u>6/30/04</u>	<u>Retired</u>	<u>6/30/05</u>
Change in Debt	<u>\$ 842,500</u>	<u>\$ 50,000</u>	<u>\$ 792,500</u>

Amounts required to amortize the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Outstanding 6/30/05</u>	<u>Interest Payable If Held to Maturity</u>	<u>Amount of Annual Maturity</u>
2006	5%	\$ 50,000	\$ 40,000	\$ 90,000
2007	5%	50,000	37,500	87,500
2008	5%	50,000	35,000	85,000
2009	5%	50,000	32,500	82,500
2010	5%	50,000	30,000	80,000
2011-2020	5%	<u>542,500</u>	<u>142,750</u>	<u>685,250</u>
Total		<u>\$ 792,500</u>	<u>\$ 317,750</u>	<u>\$ 1,110,250</u>

Notes to the Financial Statements (Continued)

NOTE E PENSION PLAN

The Authority provides pension benefits to all of its full-time employees through a 403(b) defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Authority, the plan is funded by participants to the extent they elect to defer their compensation into the plan, and by a contribution from the Authority of 8% of each employee's gross regular-time wages. The Authority's contributions for each employee (plus interest allocated to the employee's account) are fully vested immediately upon deposit of the contribution by the Authority. During the year ended June 30, 2005 the Authority contributed \$8,636 on behalf of its employees.

NOTE F CAPITAL ASSETS

Capital Assets balances and activity for the year ended June 30, 2005 were as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets not being Depreciated				
Land	\$ 1,211	\$ -	\$ -	\$ 1,211
Capital Assets Being Depreciated				
Sewer Plant	7,234,028	-	-	7,234,028
Machinery and Equipment	<u>90,987</u>	<u>3,021</u>	<u>-</u>	<u>94,008</u>
Subtotal	7,326,226	3,021	-	7,329,247
Less Accumulated Depreciation for				
Sewer Plant	3,323,185	144,681	-	3,467,866
Machinery and Equipment	<u>55,376</u>	<u>8,017</u>	<u>-</u>	<u>63,393</u>
Subtotal	<u>3,378,561</u>	<u>152,698</u>	<u>-</u>	<u>3,531,259</u>
Net Capital Assets Being Depreciated	<u>3,947,665</u>	<u>149,677</u>	<u>-</u>	<u>3,797,988</u>
Business-Type Activities Capital Total				
Capital Assets - Net of Depreciation	<u>\$ 3,947,665</u>	<u>\$ 149,677</u>	<u>\$ -</u>	<u>\$ 3,797,988</u>

Notes to the Financial Statements (Continued)

NOTE G RELATED PARTIES

The White Cloud/Sherman Utilities Authority is the agent for sewer services for both Sherman township and the City of White Cloud.

NOTE H RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTE I PRIOR PERIOD ADJUSTMENTS

During the current audit, two separate adjustments were made to adjust the opening net assets.

The first adjustment was required to record the June 30, 2004 balance for accrued compensated absences. As vacation time is payable upon termination, an accrual needs to be made at the end of the year to record this potential liability. However, until this year, this adjustment had been overlooked. To correct this oversight, an adjustment was made to decrease net assets \$ 7,197.

The second adjustment was required to adjust the June 30, 2004 balance for tap fees receivable. During the previous year, when the current amount of receivables were subtracted from the total tap fee receivable, the total billing was subtracted when only the principal portion should have been subtracted. This caused the June 30, 2004 tap fee receivable to be understated. To correct this balance, an adjustment to increase net assets \$ 6,629 was made.

The combined effect of these two adjustment was a decrease in total net assets of \$568.



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



August 17, 2005

White Cloud/Sherman Utilities Authority
60 W. Baseline Road
P.O. Box 725
White Cloud, MI 49349

Dear Board Members:

We have audited the financial statements of White Cloud/Sherman Utilities Authority as of and for the year ended June 30, 2005. As part of our audit, we studied and evaluated the Authority's internal control. Because this study was only part of the overall audit plan, it is not intended to be a complete review of all your accounting procedures; and therefore, would not necessarily disclose all weaknesses in your system. Accordingly, we offer the following comments and recommendations.

ACCOUNTING SYSTEM/GENERAL LEDGER

We would again like to commend billing clerk on the condition of the books and records. The records were balanced and very well maintained.

ACCOUNT RECEIVABLE/BILLING SYSTEM

We would also like to commend the billing clerk for taking steps to improve upon the reporting capabilities of the billing system. Previously, the "Outstanding Balances" report did not show the needed details for proper reporting withing the accounting system. During the current year, the billing clerk sought out a consultant and had the report altered to better meet the needs of the Authority.

PRIOR PERIOD ADJUSTMENTS

During the current audit, two separate adjustments were made to adjust the opening net assets.

The first adjustment was required to record the June 30, 2004 balance for accrued compensated absences. As vacation time is payable upon termination, an accrual needs to be made at the end of the year to record this potential liability. However, until this year, this adjustment had been overlooked. To correct this oversight, an adjustment was made to decrease net assets \$ 7,197.

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The combined effect of these two adjustments was a decrease in total net assets of \$568.

VACATION/SICK PAY POLICY

The amount of the liability that has been recorded on the balance sheet for compensated absences represents the total potential liability to the Authority. However, due to noncompliance with the personnel policy, this liability is higher than it should be. The policy states that the number of days of unused vacation days that may be carried forward to future years be capped at an amount equal to 50% of the current vacation earnings. The policy further states that vacation days will cease being earned until such point that the excess number of days drops below the cap. Based upon this policy, all three employees had excess unused vacation days at June 30, 2004 and 2005 but did not stop earning vacation days according to employee records. The amount of the liability recorded represents the potential liability to the Authority if all unused vacation days were required to be paid (termination of all three employees). The Board should consider either altering the personnel policy to allow for more unused vacation days to be carried forward or take steps to ensure that excess vacation days are not earned. The policy could also be changed to state that all unused vacation days in excess of the cap may be paid via wages upon the anniversary date of each employee. This would limit the amount of the potential liability that will be recorded on the financial statements.

RESTRICTED & DESIGNATED CASH

Previously, the Authority's financial statements have shown amounts held in two specific cash accounts as restricted cash with an offsetting amount shown as restricted net assets. Per discussions with the Chairman of the Board, these two cash accounts (named bond reserve savings and replacement savings) were created when the bond financing was obtained. These amounts most likely should have been shown as designated, but not restricted. While restricted assets are shown separately, along with an offsetting separately stated net asset amount, designated cash is included with all other cash and offset by unrestricted net assets. The current financial statements have removed the titles of restricted cash and restricted net assets and instead shown the above accounts with all other cash and their offset in unrestricted net assets. We recommend that the Board review their articles of incorporation, bond documents and minutes from past years to verify what, if any, amounts of cash should be restricted or designated. Should the Board discover that certain amounts need to be restricted or designated, a resolution should be passed to state or update these restrictions or designations. If present, the Authority can make any restrictions or designations clear on the June 30, 2006 financial statements.

ACCOUNTING SYSTEM BACKUP

While the billing clerk regularly saves or backs up her accounting system data, we would like to encourage an annual backup of the data prior to advancing the period. If this is not done, the detail within the data is condensed and no longer able to be accessed. We recommend the billing clerk save the data to a cd prior to advancing the period each year and that the cd be placed into permanent fireproof or offsite storage for safe keeping.

We appreciate the courtesy extended to us during our audit. We will be happy to assist in the implementation of any of the recommendations set forth in this letter or to answer any questions regarding the audit.

This report is intended solely for the information and use of the Board and management of White Cloud/Sherman Utilities Authority, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Hendon & Slate

Hendon & Slate, P.C.
Certified Public Accountants